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CRITICAL REFLECTIONS OF THE DEAN OF THE CALIFORNIA LEGISLATURE
(a series of occasional papers for the purpose of involving every Californian)

**DEAN'S REFLECTION #4a -
A REALITY CHECK & A SMART BUDGET:
KEEPING CALIFORNIA 1ST -
A SAFE, DECENT & COMPETITIVE STATE!**

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A. OVERVIEW OF DEAN'S OBSERVATIONS

My Dean's #1 (January 10, 2003) - confirmed the enormity of our State of California budget crisis - in the neighborhood of \$30 billion - amounting to a crisis of unprecedented dimensions, our enormous challenge.

My Dean's #2 (January 24, 2003) - proposed a series of 7 guidelines for enabling us to come together, meet our challenge, solving our crisis - in a mature timely efficient manner.

My Dean's Reflection #3 (February 7, 2003) - set a standard - A SMART BUDGET - and a goal - KEEPING CALIFORNIA 1ST - A SAFE, DECENT & COMPETITIVE STATE - and set forth a basic scheme for arriving at a budget which meets both goal and standard.

B. INTRODUCTION TO DEAN'S REFLECTIONS #4a

In each of my statements, I expressed my invitation to each of my colleagues (and everybody else) to assess what I am proposing, and to come up with her/his/their own alternatives.

So, I appreciate the effort of the Assembly bipartisan group which is meeting in hopes of our passing a state budget by June 15, and the Senate Republican Caucus coming up with their budget proposal.

It is now time for me to issue my Dean's reflections #4a - which builds on my earlier series of statements, and accounts for critical recent developments.

C. HIGHLIGHTS OF DEAN'S REFLECTIONS #4a

1. Contrary to some folks' charges, all but \$500 million of increase state spending since 1993 - our bottom - is attributed to inflation, population growth, K-12 education, higher education, children's health, corrections, and tax reductions.
2. An honest assessment of the Senate Republican budget proposal amounts to a betrayal of the promise of California's commitment to our famed Master Plan for Higher Education - by closing access to more than 100,000 qualified students.

D. AN HISTORICAL PERSPECTIVE: HOW COME OUR STATE BUDGET CRISIS

As the urging of my friend Michele Borba prompted my initiating this series of my Dean's Reflections, so is this section prompted by the inquiry and urging of my friend Ken Dychtwald, who recently over lunch in San Francisco, said, "I get we're in a huge crisis, I get it may well take me to pay more taxes to help us get ourselves through and out of it. What I don't get, and what I need to get myself to a readiness for that, is some understanding of how did this all come about, such that I ought become willing to do that?"

These are the origins of our current fiscal crisis:

- A. 1. As a result of our recession and fiscal crisis in the early 1990s, we cut the rate of growth in our state budget by about 1/3 or \$20 billion over 2-3 years, down to an annual state budget of \$40 billion in 1993-94 (the ebb of the last recession).
2. Over the past decade, simply keeping up with the cost of inflation and population growth (so as to maintain our state budget and our purchasing power at the same capacity) has added \$38 billion to our annual state budget. (NOTE: Between 1993 and 1998 this was the bulk of increased spending.) According to our Legislative Analyst, about 43% of the new state revenues added over the past decade have been used to finance new program spending, the remaining 6% was used to finance tax relief changes.
3. As a result of our budget cuts in the early 1990s, the State of California found itself way behind other states in our respective contribution to the education of our people, sinking to a ranking of 40th of the 50 United States in our supporting our California public schools. As a result, half of the new spending in the past decade went to K-12 and higher education programs:
 - a. When our economy recovered and soared during the late 1990s - both as required by Proposition 98 enacted by the People of California and as warranted to elevate our spending and the education of our precious children to at least our national average, altogether, over the years 1998-2002, we appropriated \$6.5 billion of additional dollars into our California public school system, which served to raise our national standing amongst the 50 states from 40th to 30th.
 - b. Then in 2000 we expanded our California student financial aid program to assure Cal-Grants to every qualified needy student entering higher education - at an annual budget cost of \$700 million.
4. Over the past decade we have expanded to \$400 million to provide health care for California's poor children through various programs, largely through Healthy Families and Medi-Cal. Most of these health program expansions came as a result of federal funding expansions, as well as program simplifications to promote better access for poor children to health care.
5. All other new state spending accounted for approximately \$1 billion, of which half has been attributed to programs in the state's corrections system.

6. Lastly, between 1997 and 2001, we reduced state available revenues by \$6.5 billion annually, including reducing the state vehicle license tax by \$4 billion along with a long list of other "tax relief" measures benefiting various industries in the state.

Of all the new increases in state spending over the past decade, all but \$500 million is accounted for by inflation, caseload increases, K-12, higher education, children's health, corrections, and tax relief.

B. All other things being equal, we would have had a total General Fund spending level of \$93 billion but, instead, anticipating the loss in state revenues, we have been cutting spending over the past two years, leaving us with current year spending at approximately \$80 billion (including an estimated \$4-\$5 billion current deficiency).

C. When the bottom dropped out of the California economy, especially our notorious cutting edge .com economy, our revenue picture collapsed, creating our huge deficit

That's how come the State of California is in our current budget crisis.

E. CRITICAL TIMELINES

Urgent timelines that are fast approaching -

- posing awful threats to California's fiscal stability and future.

In light of the enormity of the State of California's fiscal crisis, it is essential that we fully apprise ourselves of the various deadlines looming before us, the failure of us to meet each could have serious, even drastic, repercussions on the State of California and our future.

1. Our State Constitution requires that the Legislature present a budget to the Governor for his signature by June 15th;

- Short-term failure to do so could result in the financial community resisting underwriting our borrowing until definitive action on the budget is taken (our "good faith" effort to act to solve this problem;
- Longer-term failure to do so could well mean - especially in light of the Jarvis case decision rendered (though now on appeal) - that the State of California, absent a budget making such appropriations, could not pay any of its vendors at all for services provided after July 1, 2003;
- Which could seriously jeopardize their capacity to continue to provide services and, in turn, seriously deprive needy Californians of their services.

2. The issue and deadline regarding cash flow and having to go to market to borrow - how it works, when it falls;

- The state will again meet with the rating agencies right around May 15;
- The Controller estimates that we will need somewhere between \$4-11 billion in Revenue Anticipation Warrants (RAWs) to be sold in June in order to meet our cash flow demands;
- We must pay \$12.5 billion to lenders by June 20;
- If we fail, what ensues?

F. ASSESSMENT OF OTHER LEGISLATIVE EFFORTS TO DATE

I especially appreciate and welcome the proposal by the bipartisan Assembly group - because it focuses itself on a process of collaboration and joint search for a solution that would enable us to enact a budget by the forthcoming June 15 constitutional deadline.

- especially in its healthy bias that we can in fact succeed in living up to our constitutional obligation, hopefully to lead us into a self-fulfilling prophecy.

With respect to the other legislative proposal on the table already, that of the Senate Republican Caucus -

- much as I appreciate their having come forth with a proposal;
- we owe it to ourselves to right away smartly, carefully, thoroughly study and evaluate their proposal - to see whether it measures up to our standard (a "smart budget") and our goal ("to KEEP CALIFORNIA 1ST - A SAFE, DECENT & COMPETITIVE STATE").

First, then, is it a "smart budget?"

As I understand it, it proposes to adopt almost all of Governor Davis' proposed cuts and beyond that, to cut every state expenditure by 7% across the board.

That would (by its own statement) include:

1. Cutting 7% of our interest legally due on our bonded indebtedness; (unless their proposal explicitly excepted this, regarding which I have heard contradictory judgments);
2. Cutting 7% of our TANFF (welfare-to-work spending) - which would violate our maintenance of effort required by the federal government to gain its matching funds - which would cost us \$2 1/2 million;
3. Cutting 7% (beyond the Governor's cut of 50 (?)% of programs such as our regional technology alliances which draw \$7 federal for each dollar we spend; and
4. Cutting 7% beyond the Governor's proposed 15% cut in Medi-Cal provider rates - amounting to a 22% cut.

#1 is illegal (if it isn't protected and paid in full).

#2 is anything but smart.

#3 puts in jeopardy our future economic development.

#4 mortgages our future (for at such low rates, many more physicians will refuse to treat Medi-Cal patients, such that when they get sick [even with a cold], they will end up in our public/county hospital emergency rooms, costing us 10 times as much).

Altogether, no objective thinking person could call that a "smart budget."

For us to be smart, then, we owe it to ourselves (even more so, to our children and their future), to reject those cuts, their proposal.

Staying with an analysis of their proposed budget balancing scheme - we'd then have to take an across-the-board (of the remaining items subject to such cuts) of approximately 12% (some advise it would amount to an additional 16% cut for all other programs in our state budget).

Second then - How would such a budget measure up to our goal - "KEEPING CALIFORNIA 1ST - A SAFE, DECENT & COMPETITIVE STATE?"

1. If we cut our State Department of Corrections budget by 12-16%, would we be releasing any violent felons? How many?

a. And, could we still fund and sustain all the (already way too few) violence prevention and inmate rehabilitation programs which serve to protect our public safety?

b. Could we truly assure our people that we are operating A SAFE STATE for them?

2. RE: Health and Human Services Programs:

a. If we cut subsistence grants (already below the federal poverty level) for our needy senior citizens and needy children by 12-16% - how would they be able to have or provide such children sufficient food?

b. If we further cut Medi-Cal rates by 12-16% beyond the 15% proposed by Governor Davis, could we fairly expect that any physicians would continue to provide medical services to needy Californians?

- In addition to which, needy persons then without any regular access to medical care would likely end up using our public hospital emergency rooms for all of their medical needs, which would cost our public sector much more.

c. In either of these situations, how could we in good conscience proclaim California to be a decent state?

3. With respect to our precious California public school system:

a. Such a 12-16% cut would drop California public school support back down into the lower regions compared to other (competitive) states.

b. Such a 12-16% cut would require the suspension of Proposition 98.

c. How could we then expect California to prepare a workforce that would enable California to be a competitive state?

4. With respect to California public higher education:

a. If we cut the University of California budget by 12-16% (that amounts to 1/8 to 1/6 of the budget of each):

(1) Of 9 University of California campuses that amounts to at least 1 full campus:

- (a) which campus - would my Republican colleagues close?
- (2) According to University of California Vice President for Budget Larry Herschman, a 12% further cut to the University of California budget would amount to another \$360 million:
- (a) Which is the equivalent of turning away 40,000 students - that's all the new freshmen and transfer students the University of California is hoping to admit this coming school year;
- (b) But, since UC has already been admitting these students, it couldn't turn them away - which would require instead them more than doubling (a 105% increase) of student fees - rather than the 35% Governor Davis has assumed in his proposed budget.
- b. If we cut the California State University budget by 1/6 to 1/8:
- (1) That would be the equivalent of closing 3 CSU campuses:
- (a) Which 3 campuses - would my Republican colleagues close?
- (2) A prediction analogous to Herschman's UC analysis - with respect to the number of students then to be turned away and/or the doubling of student fees - would likely apply to CSU.
- c. And, if we cut so many University of California and California State University campuses, turned away so many students, and/or so radically raised their fees:
- (1) Could we really claim that we are keeping California a competitive state?
- (a) Since we would be depriving 1/6 to 1/8 of our UC and CSU students of their opportunity (actually, pursuant to California's world-famed Master Plan for Higher Education - their right) to get themselves educated, and to provide us a truly competitive workforce in today's global economy in this age of technology?

Altogether - The objective mathematical conclusion seems evident: the Senate Republican Caucus proposed budget solution:

- Is neither A SMART BUDGET,
- Nor does it KEEP CALIFORNIA 1ST - A SAFE, DECENT & COMPETITIVE STATE!

**G. WHAT'S NEXT TO MOVE US TOWARD - A SMART BUDGET -CALCULATED
TO KEEP CALIFORNIA 1ST - A SAFE, DECENT & PRODUCTIVE STATE**

First, I invite and welcome each of my colleagues, individually or in whatever joint effort, to critique my analysis herein -

- In hopes of our each and all being on the same factual analytical mathematical and logical pages as we proceed to seek a timely budget solution.

Second, I encourage each and all of my colleagues and Governor Gray Davis to come forward with more advanced proposals for a comprehensive balanced timely budget solution.

Third, I hope to incorporate all I have learned so far (from legislative hearings and various analyses) into a comprehensive proposal for A SMART BUDGET - calculated to KEEP CALIFORNIA 1ST - A SAFE, DECENT & COMPETITIVE STATE -

- And to present this for everybody's consideration by early next month.

JOHN VASCONCELLOS
Representing the Heart of Silicon Valley
Dean of the California Legislature
April 24, 2003